



STATE OF WISCONSIN
Department of Employee Trust Funds
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CORRESPONDENCE MEMORANDUM

DATE: February 9, 2011
TO: Employee Trust Funds Board
FROM: Marcia Blumer
SUBJECT: Employee Reimbursement Accounts (ERA) program and Commuter Benefits Program information

This memo is for informational purposes only. No Board action is necessary.

Program Information

Fringe Benefits Management Company (FBMC) is the third-party administrator of the Employee Reimbursement Accounts (ERA) program and the Commuter Benefits program for the Department of Employee Trust Funds (ETF). The ERA program is a flexible spending account plan authorized under Internal Revenue Code (IRC) Section 125 that offers medical expense and dependent care reimbursement accounts, as well as pre-tax premium deduction for certain insurance premiums. The Commuter Benefits program is a qualified transportation benefit program authorized under IRC Section 132 that provides pre-tax deductions for mass-transit and parking expenses related to employment.

Acquisition of FBMC by WageWorks

FBMC has notified ETF that the flexible benefits account services branch of FBMC was recently acquired by WageWorks, a leading provider of consumer-directed benefits for public sector employers, headquartered in San Mateo, California. The company will now operate as Fringe Benefits Management Company, a division of WageWorks. WageWorks will retain all key personnel, technology, data and materials at FBMC's Tallahassee, Florida location, and the duties and responsibilities under the current contract with FBMC will remain the same. The administrative services contract has been revised to reflect the change. The contract was last rebid in 2009. The current contract term with FBMC is from January 1, 2010, through December 31, 2012, with an option to extend the contract for an additional two-year period.

Reviewed and approved by Robert Conlin, Deputy Secretary.


Signature
2/18/11
Date

Board	Mtg Date	Item #
ETF	3.10.11	9B

Program Experience

The administrative expenses of the ERA program are funded through three sources: account forfeitures, interest income on employee contributions, and fees contributed by each state agency. The monthly fee paid by State agencies is based on the number of health insurance contracts with an employer-paid share that the agency remits to ETF. The employer share in 2011 is \$.50/contract/month.

For plan year 2011, 10,299 employees enrolled in the ERA Program: 9,575 employees elected medical expense accounts; 1,761 employees elected dependent care accounts; and 1,037 elected both accounts. These participation levels are a slight decrease from the previous year. The decrease in medical expense account participation may be due, in part, to a change in Federal law prohibiting reimbursement of many over-the-counter drugs that were previously eligible expenses. Dependent Care Accounts have experienced a steady decrease for the past few years, possibly due to an aging employee population and decreased hiring.

The projected contributions for 2011 total over \$12.3 million for medical reimbursement accounts and over \$6.8 million for dependent care accounts, resulting in a FICA savings to the State of approximately \$1.4 million. Employees who contribute to flexible spending accounts realize a savings in Federal, State, and FICA taxes.

The regulations governing flexible spending accounts require that employee contributions that are not used for eligible expenses be forfeited. These forfeitures are retained by ETF to partially fund the ongoing administrative expenses. The medical expense account forfeitures for the 2009 plan year were \$211,682 or about 1.5% of contributions. This is a slight increase from 2008 when forfeitures amounted to 1.3% of contributions. Dependent care expense account forfeitures totaled \$88,810 or slightly less than 1% of contributions. This is comparable to the dependent care forfeiture rate experienced in 2008. Forfeiture amounts for the 2010 plan year will not be finalized until after June 30, 2011.

The administrative expenses of the Commuter Benefits program are funded through interest income on the contributions and an annual charge to state agencies based on the number of employees who participate in the program. As of February 1, 2011, there were 1,360 Commuter Benefits participants with annual employee contributions of about \$1.3 million. The participation in this program has remained fairly steady since the program began in 2002.

Staff will be available at the meeting to answer any questions you may have.